

Dowd Water Systems, Inc.
***Application for approval of meter-based
water distribution fees for Stephenson
Lakes Water System***

Docket No. 2003-7-W

***Direct Testimony
William O. Richardson
Utilities Department***

Public Service Commission of South Carolina

1 **Q. WOULD YOU PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND**
2 **OCCUPATION?**

3 **A.** William O. Richardson, 101 Executive Center Drive, Columbia, South Carolina
4 29210. I am employed by The Public Service Commission of South Carolina,
5 Utilities Department, as Chief of the Water and Wastewater Area.

6 **Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND**
7 **EXPERIENCE.**

8 **A.** I received a Bachelor of Science Degree in Electrical and Computer
9 Engineering from Clemson University in 1975. After graduation I was
10 employed by Daniel Construction Company as an Electrical Engineer in the
11 Power Division. In 1978 I was employed by this Commission as an Engineer
12 Associate II in the Electric Department. In January of 1991 I transferred to
13 the Water and Wastewater Department as an Engineer Associate III. I have
14 been Chief of Water and Wastewater since December 3, 2002. I have
15 attended various courses and seminars related to engineering, life analysis and
16 accounting relationships. I am a member of the Water Environment
17 Association of South Carolina and a member of the AWWA. I have testified
18 before this Commission in other proceedings involving fuel adjustment clauses,
19 purchased gas adjustments, and rate case proceedings of electric, water and
20 wastewater utilities.

21 **Q: WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
22 **PROCEEDING?**

23 **A:** The purpose of my testimony is to address the effect of meter-based rates on
24 operating revenue; rates required to produce different levels of revenue that
25 produce different operating margins; the proposed capital reserve fund; and
26 to recommend a flow through of the commodity portion of the bulk water
27 charge to the end user.

28 **Q. PLEASE DISCUSS THE EFFECT OF METER-BASED RATES ON THE**
29 **COMPANY'S OPERATING REVENUES.**

1 A. As shown on Audit Department Exhibit A-3 page 1 of 2, the Utilities
2 Department has calculated the rates required to produce \$12,279 in operating
3 revenue, which will produce a 0.00% operating margin. That rate is \$40.93
4 per customer per month. Also shown on Audit Exhibit A-3, page 1 of 2, the
5 Utilities Department has provided calculations to produce the monthly rates
6 required to produce revenue that will provide revenue of \$17,520 and
7 \$10,080. These are alternate revenue requirements. The Utilities
8 Department has also provided the calculation of monthly rates required to
9 produce the operating margins from 16% to 23% as shown on Audit Exhibit
10 A-3, page 2 of 2.

11 **Q. PLEASE DISCUSS THE PROPOSED CAPITAL RESERVE FUND**
12 **INCLUDED IN THE COMPANY'S APPLICATION.**

13 A. The Utilities Department is not recommending a "capital reserve fund" at this
14 time because all of the water is purchased from the Town of Chapin instead of
15 having to be produced from wells. This should eliminate most of the
16 equipment that would have to be replaced more often such as pumps,
17 motors, tanks, etc. The Company in its application has requested a fixed
18 capital reserve fund of \$1.00 per month per customer and a variable capital
19 reserve fund of \$1.00 per 1,000 gallons usage. If this is approved, a
20 customer using 9,000 gallons of water per month would pay a total of \$10.00
21 to the capital reserve fund. The \$10.00 paid to the capital reserve fund would
22 be 25% of the base charge. Staff believes this to be excessive because any
23 capital expenditures would be limited. However, if the Commission does
24 approve a "capital reserve fund" fee, the Audit Department is making a
25 recommendation that a joint account between the Company and the
26 Commission be established so that disbursements can be monitored.

27 **Q. PLEASE DISCUSS THE FLOW THROUGH OF THE COMMODITY**
28 **PORTION OF THE BULK WATER CHARGE TO THE END USER.**

29 A. Staff is recommending that the commodity charge from the Town of Chapin
30 flow through and be shown as a separate line item on the customer's bill.

1 Calculating and listing the commodity charge and the base rate charge
2 separately will allow the Company to recover the entire cost of water from the
3 Town of Chapin. This will include water for the SCDHEC required flushing
4 program as well as unaccounted for water.

5 **Q. HAS STAFF REVIEWED THE COMPANY'S HISTORY TO DETERMINE**
6 **THE AMOUNT OF UNACCOUNTED FOR WATER?**

7 A. The normal amount of unaccounted for water is not known. The Company
8 has not begun its quarterly DHEC required flushing of its water line. Staff did
9 make an attempt to get an estimation of unaccounted for water since the
10 master meter was installed in November 2002 and meters were installed at
11 the customer's residences between November 2002 and February 2003. The
12 Company has purchased 1,262,400 gallons of water; the customer's meters
13 have recorded 1,083,780 gallons. The difference is 178,620 gallons
14 producing a 14.1% unaccounted for water rate. These meters were read on
15 July 17, 2003. Staff notes this percentage will not be indicative of the normal
16 amount of unaccounted for water since all of this water has been used for
17 flushing during the construction phase. To ensure an accurate accounting for
18 the unaccounted for water, Staff will need to review twelve months of meter
19 read water usage.

20 **Q. DOES THAT CONCLUDE YOUR TESTIMONY?**

21 A. Yes it does.
22